"This is a rare opportunity to take an iconic company that shaped the industry in India, and help shape the industry one more time"

- Vishal Sikka, newly appointed CEO of Infosys

Sparks!

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Did you know?

Mercedes automobile was named after Mercedes Daimler, the daughter of German automaker Gottlieb Daimler

Geo-Politics

(image source: Reuters)

Modi's foreign policy- Challenge to China?

-by Abhirup Bhattacharya

Narendra Modi, India's newly elected Prime Minister recently completed his maiden foreign trip to Bhutan after being elected to office. The two-day trip involved meetings with his counterpart the Bhutanese Prime Minister and his majesty, the King of Bhutan. Mr. Modi also inaugurated the newly established Bhutanese Supreme court and addressed the elected parliament of the state. While all this might reflect the traditional bonhomie that has existed between the two countries, why was Bhutan chosen as the destination for his first visit after becoming PM?

India remains Bhutan's largest trading partner contributing to more than 90% of its foreign trade (valued at over 70 billion INR). The main export from the Himalayan kingdom is hydro-power as the country produces surplus power owing to its geographical location and forms the centrepiece of any bilateral trade relation with India. The recent trip also marked agreement on four new hydropower plants that will be built by India.

Though the country has its own currency Ngultrum, the Indian rupee remains the preferred monetary unit for transactions. The visit comes at a time, when Bhutan is looking towards India for financial assistance as the country recorded government debt at 110% of GDP in 2013 and is in severe need for a bailout. Bhutan has traditionally been an Indian ally, however its recent overtures towards China (with several high level visits) was enough to catch the attention of South Block. In choosing Bhutan as the first destination, Mr. Modi has re-emphasised the strategic importance that India accords to the country. Bhutan remains the only Indian neighbour where China still does not have a diplomatic consulate.

In a way, India must be wary of Bhutan becoming part of China's "*string of pearls*" endeavour in future. It refers to the military strategy of China to encircle India with naval bases in Indian Ocean, South China Sea, Bay of Bengal and the Arabian Sea. The most notable of these are the "two pearls" of Gwador port in Pakistan and Hambantota port in Sri Lanka, both of which are funded by the Chinese. In case of Hambantota, Sri Lankan authorities had initially asked for India's help in its construction, however when India refused, they turned to China for assistance. In case of Bhutan, New Delhi seems keen not to repeat the same mistake.

Mr. Modi recently became the first Indian Prime Minister whose swearing-in ceremony was attended by the head of states of SAARC countries, including arch-rival Pakistan. In what was a clear show of strength as a regional power, it was also an attempt by India to win back the support of its "*former*" allies Bangladesh, Sri Lanka and Maldives- all of which are increasingly becoming part of Chinese interests in the region. The Chinese have so far tried to downplay the significance of the Bhutan trip with its foreign ministry spokesperson Hua Chunying saying that China is "Happy to see such a development". The Chinese foreign minister Wang Yi had also recently visited India and met with the Prime Minister and his Indian counterpart on the long standing border issue among other things. Ironically, Modi's next high level meet is scheduled for Japan (now delayed due to the upcoming budget) - a country that China associates with its world war II memories of occupation and suffering. China and Japan have also confronted each other over the sovereignty of the Senkaku islands in recent past. Mr. Modi would also be meeting US President Obama in the upcoming months- an event that China in particular would be watching closely. China feels that India is increasingly going to ally with US-Japan in Asia Pacific region, which will be detrimental to its interests. The Chinese President Xi Jinping is scheduled to visit India later this year. While the visit will be historic, Mr. Modi might have already set the agenda for Sino-Indian talks by then with his actions.

Around the world

The abdication of the throne by King Juan Carlos and succession by his son Prince Felipe was ratified by the Spanish Parliament, amidst growing calls for an end to the monarchy.

Nearly half million residents in Hong Kong voted in favour of greater political freedom in an online poll. Beijing has so far showed no inclination to make any such changes and is monitoring the events closely.

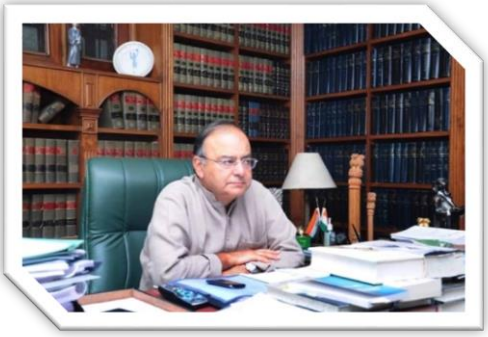
Afghanistan conducted the second leg of its Presidential election on 14th June. Opinion polls have showed Mr. Abdullah Abdullah as front runner to be the next President.

G7 leaders have called for immediate withdrawal of Russian troops from the Ukrainian border amidst growing tensions. Russia has responded by stopping gas supply to Ukraine.

(image source: Reuters)

The Indian Union Budget 2014-15: What can we expect?

-by Abhirup Bhattacharya



(Image source: The Hindu)

The newly elected Indian government will have their task cut out as they are set to present their first financial budget in the month of July for 2014-15. The economy is facing structural issues with GDP growth hovering around the 5% mark over the last 2 years.

There are a number of tax reforms that are expected in this budget. These include the reduction of the Minimum Alternate Tax (MAT) from 18.5% (with surcharges) to about 10-12%. The MAT was originally set at 7.5% when introduced. In addition, restoration of section 10A and 10B would provide the necessary tax incentive and fuel growth. Section 10A provides 100% tax breaks for an undertaking established in a FTZ, EPZ whereas 10B deals with providing the same benefits to export oriented units and those located in STPI units. The provisions were discontinued from the budget of 2011-12.

Though there is a growing demand for repeal of the 2% of net profits mandatory spending on CSR activities under the New Companies Act 2013, this is unlikely to happen.

In terms of personal taxes, the savings under section 80C of the Income Tax Act is likely to be raised by at least 50,000 INR from its existing limit of 1 Lac INR. In addition, there is a likelihood of raising the minimum taxable income from 2 lac to about 3 lac. It would be interesting to see how these populist measures affect the revenue stream of the union in the long run. India has one of the lowest tax compliances in the world with roughly 2.9% of the population filing income taxes.

It is likely that defence budget will be raised this fiscal year, especially as Pakistan has proposed a double digit hike in its defence spending. India is already the world's largest importer of defence equipment at 8 billion USD which is growing at 13-14% on a yearly basis. The government is keen to allow 100% FDI in defence which would help in curbing imports and stemming the devaluation of the Indian rupee.

The government, though, is unlikely to go ahead with multi-brand retail FDI despite significant pressure from foreign players. The aviation sector in the country also needs an impetus which can come in the form of a reduction in fuel surcharge and a possible increase in FDI limit from 49% to 51% might be on the cards. The automotive sector too is looking for cut in import duties as it has been badly hit by the economic slowdown. ACMA, the apex body has asked for the continuity of the 10% excise duty on auto components along with the removal of customs duty on alloy steel, mild steel, aluminium alloy and secondary aluminium alloy.

The situation in Iraq is likely to send oil prices upwards and it would be interesting to see how much of the impact is passed on to the consumer. Oil import comprises the largest component of India's import bill. The duties levied on Gold imports are also likely to stay especially as falling prices have led to an upsurge in demand. In addition import duties on consumer durables and electronics is also likely to be raised.

The education sector too is expected to see an increase in spending with setting up of new IIMs, AIIMS and IITs along with focus on primary education. Smriti Irani, the minister for Human Resource Development has already stated that spending on education would increase to 6% of GDP in coming years from less than 4% presently. With upcoming elections in states like Maharashtra, the government may look at making non-subsidised LPG cylinders cheaper. In addition one may see loan waivers for farmers in drought hit areas especially with a weak monsoon seeming more probable.

The government has already shown a strong intent to bring the economy on track by trying to curb vegetable exports by raising minimum export price and implementing a 14.2% hike in railway fare & freight charges. The railway budget is unlikely to see any new major announcements of new projects owing to its financial state. Overall, the budget might spring up a few interesting surprises.

Negative Interests to spur growth?

The European Central Bank has set a deposit rate of -0.1%, becoming the first major central bank to introduce negative rates in a bid to bolster growth. The move is also targeted at tackling extremely low inflation rates which were at mere 0.5% in the month of May.

(image source: Reuters)

China-Australia Free Trade Agreement may be signed soon

China and Australia are likely to enter into a free trade agreement soon as talks that began in 2005 are beginning to bear fruit. China remains Australia's largest trading partner while also being it's preferred overseas investment destination.

High import tariffs imposed by USA on Chinese solar panels

The US government has decided to impose high tariffs on solar panel imports from China. The moves comes after it came to light that Chinese companies had outsourced the manufacturing of components to Taiwan and were just assembling the panels in China in a bid to avoid the tax on components. The solar panel industry remains one of the highly subsidised industries in China.

US trade deficit with China continues to grow

The trade deficit of US with China reached a two year record high of 47 billion USD in the month of April, driven by a 16% rise in imports from China. The total imports in the month stood at 240.6 billion USD. (image source: Reuters)

Lithuania set to join the Euro zone

The European commission has agreed to allow Lithuania to adopt the Euro next year. The country will become the 19th nation to join the Eurozone and is the first country among the east European nations.

India- EU Free Trade agreement likely

The much awaited free trade agreement between India and the 28 member EU maybe be signed soon. One major hurdle in inking the deal is EU's insistence so far on reduction of import duties on automobiles in India. The deal, if signed, will be historic as India will, for the first time, enter in such a pact with a country outside Asia.

India-Pakistan trade relation at historic high?

Pakistan is likely to grant India the status of most favoured nation (MFN). This will mark a historic high in bilateral trade relations and will go a long way in resolving tensions between the two countries. (image source: Reuters)

Japanese tax reforms to boost growth

The Shinzo Abe led Japanese government has decided to lower corporate taxes from 35% to below 30%. The tax reforms form the "third arrow" of Abenomics and is expected to boost growth in the economy.

World cup to boost growth?

Brazil, hosts of the 2014 World Cup, are unlikely to benefit much from hosting the tournament with an expected marginal increase of 0.1-0.2% in its GDP according to an estimate. Brazil has spent more than 15 billion USD for the mega event, nearly thrice the amount spent by South Africa in 2010.

Decoding NBFCs and impact of RBI norms

-by Jnika Tuteja

NBFC- Non Banking Financial Companies are financial institutions which offer all kinds of banking services but do not hold a license for being a bank. A NBFC is registered under the Companies Act, 1956. Banking services like loans and credit facilities, hire purchase, insurance, money markets, underwriting, merger activities, etc can be performed by them. Hence, NBFCs perform functions similar to a bank.

So, what is the difference between a Bank and a NBFC? One major difference between a bank and a NBFC is that a NBFC cannot accept demand deposits. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.

As per the RBI Act, 1934, no Non-banking Financial company can carry on the business of a non-banking financial institution without obtaining a certificate of registration from the Bank and without having a Net Owned Funds of Rs. 2 crore. However, certain NBFCs like Venture Capital Fund/ Merchant Banking companies/ Stock broking companies registered with SEBI, Insurance Company holding a valid Certificate of Registration issued by IRDA, Nidhi companies under the Companies Act, 1956, Housing Finance Companies regulated by National Housing Bank, Stock Exchange or a Mutual Benefit company are exempted from the requirement of registration with RBI.

There are a number of categories of NBFCs registered with RBI (reference: RBI website):

i. Asset Finance Company (AFC) : An AFC is a company which is a financial institution that finances physical assets supporting productive/ economic activity, such as automobiles, tractors, lathe machines, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business is the aggregate of financing real/physical assets supporting economic activity.

ii. Investment Company (IC) : IC is a financial institution which carries on the acquisition of securities as its key business,

iii. Loan Company (LC) : LC is a financial institution that carries on the providing of finance as its principal business, whether by making loans or advances or otherwise but does not include an Asset Finance Company.

iv.**Infrastructure Finance Company (IFC)** : IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A' or equivalent and d) a CRAR of 15%.

v. **Systemically Important Core Investment Company (CIC-ND-SI) :** CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-

(image source: The Hindu)

a. it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

b. its investments in the equity shares in group companies constitutes not less than 60% of its Total Assets;

c. it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

d. it does not carry on any other financial activity referred to in RBI Act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.

e. Its asset size is Rs 100 crore or above and

f. It accepts public funds

vi. Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

vii. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI) : NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;

b.total indebtedness of the borrower does not exceed Rs. 50,000

c. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

d. loan to be extended without collateral;

e. aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs;

f. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

vii. Non - Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 75 percent of its total assets and its income derived from factoring business should not be less than 75 percent of its gross income.

NBFCs and RBI Norms

NBFCs have played an important role in the financial growth of the Indian economy, especially in terms of financial inclusion. NBFCs (non-banking financial companies) have been more successful than banks in fuelling the rural economy with loans. They have been lot more innovative & have mastered the art of enriching rural India and churning out profits as well.

But, NBFCs have always been on the edge of the sword with respect to the regulations by RBI for these financial institutions. The amendments in the regulations for NBFCs have been like whammies on the non-banking financial companies sector which have affected their growth. The amendment to the Companies Act, 2013 almost disoriented the bond markets for NBFCs.

The RBI's Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2014, require the NBFCs to obtain prior written approval for all kinds of Merger and Acquisition activities including investments which would transfer rights to the investors.

The New M&A norms (ref: RBI)

The RBI has directed all the NBFCs to obtain a prior written permission to carry out the following:

(i) Any takeover or acquisition of control of an NBFC, whether by acquisition of shares or otherwise;

(ii) Any merger /amalgamation of an NBFC with another entity or any merger / amalgamation of an entity with an NBFC that would give the acquirer / another entity control of the NBFC;

(iii) Any merger/amalgamation of an NBFC with another entity or any merger/ amalgamation of an entity with an NBFC which would result in acquisition/ transfer of shareholding in excess of 10 percent of the paid up capital of the NBFC.

(iv) Approaching the Court or Tribunal under Section 391-394 of the Companies Act, 1956 or Section 230-233 of Companies Act, 2013 seeking order for mergers or amalgamations with other companies or NBFCs.

All NBFCs imply all the NBFCs irrespective of deposit taking or non-deposit taking institution. Earlier directions of 2009 included only the deposit taking institutions.

The scope of directions as per the 2014 act is wider. A written permission is required by the NBFCs not only for amalgamation, mergers or takeovers but also for investments which would transfer significant rights to rights to the investors.

Hence, any NBFC listed on any stock exchange will have to follow the SEBI guidelines and the requirements under the Companies Act will have to be met. This will escalate the cost of investment for the NBFCs.

The day when these regulations were announced, shares of NBFCs declined. Although RBI wants to ensure a better management of NBFCs but the question arises –

"Will these strict regulations bring about a better change in the workings of the NBFCs or will it rally their growth trajectories?"

[The author is an MBA from XIMB and is presently working with Royal Bank of Scotland]

Deals & Wins

Premji Invest, the family house with funds of over 10,000 crore will now be able to directly invest in technology companies in US and China as it has received RBI approval for it.

Bookmyshow.com, the online ticket booking site has joined the 1000 crore valuation club with its latest funding of 150 Crores from SAIF Partners, joining the league of online companies Quikr (1500 crores) and Zomato (1000 crores) .

The **Ambani** brothers could finally end up working together in telecom sector, amidst talks of sharing infrastructure and spectrum between Mukesh Ambani's Jio Infocomm and Anil's Rcom.

PE firm **Blackstone** has partially exited its investments in Gokaldas Exports, one of the largest apparel manufacturing firms in India at a significant loss to its investments.

SEBI, the Indian regulator has proposed new rules for floating IPO in the Indian market. As per the new rules, the IPO value will have to be at least 25% of total holding or INR 400 crores, whichever is less.

The Indian Government is proposing changes to the **land acquisition bill**, which will pave way for several PPP model based infrastructure projects.

Indian retail major, **Flipkart** is likely to have its IPO in 2015. The company recently acquired Myntra.com, a life style e-commerce site and faces tough competition from Amazon in India.

L&T Technology services has acquired a 74% stake in French Defence and Aerospace company Thales' Indian arm. The deal is expected to give a significant boost to the avionics business of L&T.

Human Resource & Management

Forced ranking: Survival of the fittest or artificial demarcation?

-by Luna Daniel & Rajdeep Chakraborty

Today, the method of forced ranking or slacking during performance evaluations, introduced by Jack Welch in GE in late 1980s, has been zealously embraced by the HR community across the world. A recent study shows almost one third of all companies big and small, use some kind of forced ranking method to slack their employees. More people today enjoy or suffer the excesses of forced ranking systems and bell curve "fitment" than ever before. Arguments have been given in favour of the system by calling it meritocratic, fair and productive. One key argument which is given in favour of forced ranking systems is that it makes sure good people are rewarded and the underachievers are weeded out. Therefore, organizations become more competitive, meritocratic and productive. With the knowledge of key contributors and high potentials each year, the organization becomes a healthy rolling stone, making way for fresh talent and innovative ideas.

Pre-Requisite to Understanding Forced ranking Method- Performance Management Systems

Evaluation of performance was first evidenced in the Roman Empire and the second World War set pace for formal mechanisms for the same. The 80s saw the rechristening of performance appraisal to performance management and the process evolved to become from more than just a basis of salary increments to a business need that called for clarity of individual, team and organizational goals as well as catered to the more humane aspect of discussions, self-reviews and one to one discussions.

Surveys show an increasing dissatisfaction of professionals in the process and it was seen that less than 5% of managers and employees were very satisfied with the systems within their companies. Some of the primary reasons for the above are listed below:

I. **Differences in the understanding** of key components across the employee population with a clear lack of manager training on key components like performance review discussions, rater biases and insensitivity to the development component of the performance management systems.

II. Pressure to be good to team members and **be 'liked'** leads managers to rate people on what is desired and not the expected. Therefore, there are often low performers rated the same vis-à-vis high performers. Everybody moves to the median with managers steering clear of giving the extremes.

III. **Setting goals** is tough and imprecise and therefore what to measure performance on, is not clearly defined

IV. The reviews are often a **post mortem** and therefore no mechanism setting performance standards, on track, throughout the year.

V. **Leaders don't set the example and don't walk the talk.** Performance is treated as an HR initiative and not an organizational one, leaving many people wondering about the link between their contribution and organizational performance.

The effectiveness and the role of performance management systems is today being questioned and there are few who see merit in the system. Many HR professionals today also feel that performance management systems have not kept up with changes in the workplace. As businesses are changing, it is important to tweak current processes and ensure that best practices are embraced to keep up with the times. Therefore as HR or line managers there are some key questions that must be pondered:

1. Does performance management system have methods of ensuring that raters are trained and educated and the process produces consistent (repeatable) results between different raters?
2. Does the process help you differentiate between high and low performers? Are there clear definitions for good, better and best?
3. Does the rating scale mirror the above? Can one justify what a score of 3 on a 5 point scale is?
4. Do we identify clear consequences (positive or negative) for low or high performers and is this communicated from day 1?

Therefore, before we blame the process of forced ranking, it is important for us to understand whether our performance management objectives are understood, communicated and executed keeping in mind the culture of the organization. The first step to ensure that the forced ranking method is effective is to ensure that it is used as a part of the overall performance management of the organization and in context to what the business wants rather than a standalone process that spells terror and cynicism.

The two sides to the Forced Ranking Method:

As there are two sides of a coin, it is also understood that any process may come with its share of good and bad. There are many proponents for the forced ranking method but there is a greater number that opposes the validity and reliability of the process. Some of the reasons for advocating the process are given below:

Ensuring a culture of high-performance. Elimination of weak performers and ensuring that high performers are recognised helps build a high performance culture. This also pushes people in the bottom work their work up to the top.

Relation to the return to shareholders. Assessing performance of employees and leaders helps organizations understand the human capital assets and also helps them to outperform organizations which are focussed on evaluating unit or organizational performance. Highly capable leaders who communicate business goals to the team and guide them with structured/formal feedback also help organizations enjoy higher total shareholder returns.

Helps communicate better to employees about their contribution to the overall organizational goals Performance Management with appropriately done ranking methodology changes the corporate identity of organizations and changes focus of employees from 'what's in it for me' to 'what is my contribution' . Most often the common complaint from employees is about the lack of feedback on their performance. Communicating to the employees about their performance inculcates a culture of transparency sending a clear message, as to where the employee fits in the overall performance curve.

Some of the reasons for refuting/opposing are as follows:

Morale Busting. Telling people that they are not good enough can be a 'confidence crusher'. Lack of morale may in turn have a detrimental impact on the employees and may spiral into disengagement and dissatisfaction. But the question one may ask is that while we prefer high-performing workplaces, can we create processes that spread the high performance virus without demotivating them?

How would you define 'healthy competition'? Sometimes professing the culture of high performance too much can pitch>>

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against people each other. Can asking one to outperform the other lead to lesser collaboration and cooperation?

One Size Fits All Approach. If performance is different for different employees, is a one size fits all approach justified? Is the management, HR, employees clear about the criteria for segregating employees into a 70-20-10 curve?

Failure of Forced Ranking Method- A People Issue?

Research shows, and most HR managers today agree, there are fundamental problems with this slacking system. The first being, it makes people lose their motivation to work. The problem is summarized brilliantly by a former software developer from Microsoft "If you were on a team of 10 people, you walked in the first day knowing that, no matter how good everyone was, 2 people were going to get a great review, 7 were going to get mediocre reviews, and 1 was going to get a terrible review."

The problem of motivation raises a more fundamental issue with forced ranking systems. Who decides how many people are good in an organization, how many are average or poor? How can an organization which aims at recruiting the best talents say only 20% of its employees are superstars? Another problem with a forced ranking system is that it makes companies more competitive internally than collaborative. The system inherently plays one man against another and sometimes creates a feeling that employees can only succeed by making another employee fail. This leads to fierce competition within the SBUs or departments and even among individuals. The result of the situation being, employees at an individual level and departments at a team level start to work in silos, as disjointed units. The company in the process loses out completely on the collaborative advantage that it ideally should have had. There has been many a Harvard Case Study written on Wall Street firms and their collapse because they could not leverage their man power effectively due to unhealthy internal competition among senior employees. The final problem which a forced ranking system creates is that it eliminates the element of opportunity from performance management system. We all know that performance is a product of motivation, opportunity and knowledge, a bell curve fitting might not consider whether the employees has been given the same opportunity to perform. This makes the system seem extremely inhuman and inorganic to most employees.

Is context important?

Forced ranking has evolved to address the basic economic problem of limited distributive capacity of an organization's net surplus. Therefore, there might still be some justification of having a system like forced ranking in a profit making firm. However, increasingly, B-Schools and other educational and non-educational organizations whose operations are not to make profit or who are not tied down by the constraints of limited resources have been using forced ranking to evaluate their people. Let's take the example of a B-School which chooses to force rank a class of 60 students into grades of A, B, C, D. with 10% getting A and D each and another 40% landing up with Bs and Cs. The whole system becomes illogical because it presupposes that only 10% of the class can excel in a subject and 10%, no matter what their grade are, have done poorly. When there is no need for capital budgeting the organizations still ends up using the system, by jumping onto the bandwagon of slacking.

In conclusion

Forced ranking is the worst exponent of a Darwinian school of capitalism, where only the fittest survive, not by the process of natural selection but by the process of artificial demarcation. However, like most flawed processes in a self-correcting world, the invisible hand is making sure the system is discredited and progresses towards a speedy demise. With more articles being written including this one and more opinions being voiced against the system, it is ideologically standing on its last leg. We need to find a more humane way of evaluating people and propounding a system of ensuring distributive justice in organizations. We need to ensure that while we promote a culture of performance there is necessary buy in from stakeholders. There could be questions raised as to whether the entire population can be kept happy (which is itself a utopian state) but it is important for organizations to understand that while forced rankings are used, they must be able to justify and be logical while they use this tool. Educating stakeholders, having a clear game plan, defining objectives and goals and more importantly engaging with employees is the crux of successful performance management. Because continuous improvement and sustainability, is driven by people for the business and not vice versa.

[Luna Daniel works as an Organisational Development Consultant with TV Rao Learning Systems; Rajdeep Chakraborty is presently pursuing his MBA in HRM from XIM, Bhubaneswar]

Business & Strategy

Car rental business in India- Growth market for future?

-by Asit Arunav Mohapatra

Car rental business in India is growing rapidly at a CAGR of around 12% in a market that is currently dominated by the unorganized sector. The organized sector has a small portion of the pie and is expected to grow in the future. The organized sector differentiates itself from the unorganized sector in terms of its service parameters like quality of service, reliability, etc. and charges an upfront premium for that. A whole range of start-ups have sprung up in the recent past and they are now on a fund-raising spree. OlaCabs, a popular car rental agency recently raised fund from Tiger Global.

(image source:livemint.com)

Most of these companies are more than just mere car rental companies. They use technology to create value at every portion of the value chain. A Global Positioning System, or GPS, helps the driver reach the destination easily. The most notable point of the business model of these companies is that they do not own a car, which helps them to reduce their capital expenditure drastically and has helped similar firms to reach the even playing ground quickly. These companies mostly rely on the fleet of the existing operators and bring them on board with proper training so as to deliver a consistent service experience. They charge service premium from the high end customers who do not mind paying for a flawless service.

What makes a good car rental business standout?

While several players have already entered the market, unless a company differentiates itself from the existing players, it is just another car rental company. Here are some good differentiating points that have helped companies like Savaari to reach a pan India scale while crafting a unique space for itself in the market.

i. **While choosing the fleet, one should be extremely judicious.** Fleet decisions should not only be based on a good deal, but also whether there is customer demand for those cars

ii. **Appropriate time and money should be dedicated to sales and marketing.** Let your value proposition stand out clearly and let this be communicated to the customers. This will increase the customer footfalls and repeat sales

iii. **Look for marketing tie-ups.** For example, tie-up with a good hotel nearby. Have them refer business to you.

iv. Try to cut costs on the **fleet financing**. It will make a big difference to your bottom line.

v. **Use technology** to increase your vehicle utilization. For example, OlaCabs tells you how far is the nearest cab from you.

vi. Combine your car rental business with **tour packages** to nearby cities. This is an emerging trend among many car rental companies in India and can increase the vehicle utilization

Challenges of the industry

i. **Training and Support**- Educating your partners and bringing them on par to provide unique and consistent services to the customers is a challenge

ii. **Expansion ahead**- Securing funds to continue expansion into tier-2 cities is also another challenge. The dynamics of the industry are such that once few players enters the market, a new player has to give huge promotional discounts along with significant spends on marketing. In such a case, a company which expands rapidly will have a fast mover advantage

iii. **Supplier relationship**- Building a long term relationship with your car owner partners and encouraging them to continue doing business with you when more players enter the market

Going forward

Car rental business in India is estimated to be worth around 15000 crores. The challenge, though, remains to >>

(Continued from previous page...)
ensure a smooth and consistent pan India service. The car owners should be willing to upgrade their fleet technologically and provide vehicles 24/7. There is also an increasing need to move from cars like Indica to newer ones like Honda driven by customer expectations. From a strategic point of view, different models should be used for retail and corporate customers. Corporates mostly rely on car rental companies for intra city transfer and work on credit. Hence, the pricing and marketing strategies should be different for these segments. Going forward, the players which give a unique and consistent service will rule the roost. Proper attention must be given to branding like dress-code for chauffeur, car bills, newspapers and water bottles inside the cars etc. These services will make the customer experience delightful and will encourage them to not only use but also refer the services to others. A few players have also come up with promotional schemes like loyalty points.

It is likely that this sector will have significant investment in technologies to ensure seamless integration of services encompassing all the partners. So it has significant potential for investors to make a mark. As many tier-II cities are still untapped, companies which remain lean and manage their suppliers well can ensure both top and bottom line growth.

[The author is presently pursuing his MBA at IIM Indore.]

Marketing & Branding

Corporate Branding – Is it the recipe for success?

- by Avinash Pullela

It was the start of a new term at college and as always, it was time to spend a sizeable part of my pocket money in buying the things I need to ration in order to get my day started. (Shampoos, Pens, books etc.) So, I went to a local kirana store and ended up purchasing a Surf excel packet, a Lifebuoy soap and a Dove shampoo bottle among other things. On my way back, I realized that all the above products were manufactured under the same corporate header- HUL, but it felt like HUL did not want anyone to know of this fact. This got me thinking about why does a company as big as HUL, not find it prudent to launch these products under a single corporate brand rather than a product wise brand. On further analysis of this observation, I found that most of the companies as we know them follow two main strategies- Corporate Branding and Product Branding. Both the strategies have their own upsides and downsides but more importantly have a common goal- SUSTAINABILITY.

Let us first look at the product branding strategy. This is a strategy followed by almost all the major companies in the FMCG industry. Be it ITC, HUL or P&G, they all roll out their products under a different brand. Some say, this is done in order to hedge their risks, as one product's failure does not directly impact the brand image of the other product. In other words, if the sales of the Dove shampoo were to drop owing to a product defect, it would not affect the sales of the lifebuoy soap as customers do not associate the two brands. However, this strategy has also been criticized by many market analysts as being very defensive. They argue that the companies which cannot guarantee benchmark customer satisfaction on a consistent basis are the ones which choose to take up this strategy. They are partly right in saying this. While on the one hand it is indeed a defensive strategy, on the other hand it is perhaps the only way to survive in this industry. The reason being the fickle-mindedness of the end consumer to subtle changes in product price and features is very high in this industry and hence a certain degree of experimentation is inevitable. The corporate branding strategy is on the other end of the spectrum. Whether it is the auto industry or the smartphone industry, this strategy is extensively used.

Whether it was the iPhone launch in 2007 or the scheduled iPhone 6 launch later this fall, they all have been and will be launched under the same corporate header- APPLE. The same goes for the various auto makers like Ford, Hyundai, and Toyota etc. So why is this strategy so appealing in this industry? What is so different about these industries? The answer again lies in the fact that producers in these industries strive to deliver a consistent quality to a customer who is not as easily swayed as is the case in the FMCG industry. Metrics like brand loyalty and Economies of scope find more meaning in this segment.

It is often seen that the power of an established brand works as a charm for the companies when they want to introduce a new product. A new car launched by Toyota comes with the Toyota product guarantee and hence it is that much easier to convince a customer that he is making the right choice.

But the picture is not all rosy. There are many downsides to this strategy. One of them is that, if one of the products fails to meet the consumer expectations or has defects which creates discontentment in the consumer fraternity, then the entire product line is hit. To site a very familiar example- The iPhone had always been a symbol of innovation and it was Apple's star product. But, with every upgrade, the potential for innovation started coming down and when IPhone 5s was no longer seen to be as innovative as its predecessors along with the fact that many competitors had levelled Apple in this race, Apple's sales fell drastically. Moreover, this trend was not restricted to the iPhone alone, it spread wide and fast affecting iPad and Macbook sales and Apple was displaced from the pinnacle of the most valuable companies list.

Another drawback of this strategy is that if the company wishes to change its brand statement and reposition itself, the transition might not always be a smooth one. For instance, if Maruti decides to venture into the luxury car segment, it might not be welcomed by the market with open arms as over the years, Maruti, as a brand, has established itself as a cost-efficient auto maker with no track record of providing a luxury experience to the customer.

Hence, whether it is product branding or corporate branding, ultimately it is the quality of the products that ensures the sustainability of the company. So if you are deciding on either of these strategies, be sure about weighing the pros and cons of each strategy and then deciding which of them suits your company the best.

[The author is presently pursuing his MBA at XIM, Bhubaneswar]

What's making news

(image source:Fifa.com)

Football governing body FIFA will generate approximately 4 billion USD in revenue from the World Cup in Brazil. The revenue is mostly from television rights (1.7 billion USD) and corporate sponsorship (1.35 billion USD). FIFA counts among its sponsors iconic brands like Coca-Cola, Adidas, Hyundai and Emirates. The revenue is nearly 65% more than in 2010 World cup in South Africa when it stood at around 2.4 billion USD.

ITC has ventured into the e-retail place by launching a portal for its lifestyle brand Wills Lifestyle. The company presently also sells its products across other e-commerce players like Jabong, Myntra, etc.

Brand Trivia!

Pepsi was first introduced as "Brad's Drink" in 1893 by Caleb Bradham, who made it at his drugstore where the drink was sold. It was later branded as Pepsi Cola, after the digestive enzyme pepsin and kola nuts used in the recipe.

Vishal Sikka appointed as new CEO of Infosys

Indian IT giant Infosys has appointed Vishal Sikka as its new CEO in a bid to turn around the fortunes of the ailing giant. This will be the first time that Infosys will be headed by a complete outsider to the company. The appointment also marked the exit of its high profile founder Narayan Murthy and his son from the helm of affairs. Mr. Sikka was formerly member of the board of SAP AG and is widely regarded as the creator of HANA architecture.

Right to be forgotten? Well ...

Online search engine Google has vehemently opposed the ruling given by a local European court that gives people right to be forgotten on the internet. Google has argued that such a ruling opposes the fundamental right to information that exists and can only be considered under special cases. The company though, launched a webpage where individuals can request removal of links having references to them, registering more than 40,000 requests within hours of its launch.

Xiaomi set to launch in India

Premier Chinese mobile handset manufacturer Xiaomi is all set to enter the Indian market for which it has hired Manu Jain, co-founder of e-commerce site Jabong.com. The flagship device Mi3 will also be available in the country which is expected to give the Samsung and Apple a tough run in the Indian market. Xiaomi, launched in 2010, is one of the largest and most admired consumer electronics companies in China and has managed to overtake Apple in the Chinese market in a short span of time. In its first phase of foray outside China, the company is targeting the emerging markets of India, Taiwan, Singapore and South Korea among others. India is the world's second largest mobile telephone market with more than 850 million subscribers. Xiaomi mostly sells its devices online and it has tied up with e-commerce site Flipkart in India. (image source: Reuters)

The Fire Phone- A little too late?

Amazon recently launched the Fire phone to compete in the mobile market ruled by Samsung & Apple. The phone is based on a customised version of Android and will be available in 16GB and 32GB models with prices starting at 199 USD (with two year contract). The phone has already been nicknamed as a pure shopping device having complete integration with the merchant site. However, has Amazon entered the handset market a little too late? (image source: Reuters)

Is Google destroying the start-up ecosystem?

-by Abhirup Bhattacharya

How important is an ecosystem? How about technology start-ups? Just like an ecosystem is important for living organisms, the same holds true for start-ups. In a world that is increasingly going mobile, we often hear open systems and open source driving the next technology revolution, but do we essentially have the right ecosystem in place? The mobile landscape and personal computing today has increasingly become platform dependent: the platform that you choose decides what you end up doing and not the other way round. Sounds confusing? Let's try to explain. Considering the three major arenas- Mobiles, Computers and Tablets- who exactly are the major platform players? Microsoft, Apple and Google. While Microsoft and Apple have opted for closed system, Google follows an open source system for its android platform.

Android today is the most popular smart phone and tablet pc platform, primarily due to its high customisation possibilities and open source nature, leading to what people call the creation of the ultimate ecosystem. The result: a user today can find application for any purpose right from killing a mosquito to downloading music. But did Google create Android? Google today virtually controls the mobile market, the search market and the world-wide web. So while on one hand it is creating an eco-system, it is also transforming itself into the largest technology giant there ever has been and there ever will be. How? Hire people smarter than you and acquire companies that have smarter products.

Google has a long history of acquisitions starting way back in 2001 when it acquired Deja, a usenet (similar to bulletin board), that today runs at the heart of Google groups. Genius labs is another example. This company was acquired in the year 2003, and today runs as Blogger. The following table illustrates how some of the acquisitions have contributed to growth of Google:

Major Acquisition	Presently integrated in
Deja	Google groups
Pyra Labs, Genius Labs	Blogger
Applied Semantics	Adsense
Urchin Software Corporation	Google Analytics
Android, Inc.	Android
Upstartle	Google Docs
Omnisio, On2	Youtube
Katango	Google+
Channel Intelligence	Google Shopping
Neotonic Software, rMail, Postini	Gmail
Endoxon	Google maps

In fact most of the technology that Google today boasts of are those that had their inception in different companies. If we consider the Google strategy, it buys out a firm in its nascent stage. On a product life cycle curve, that will refer to disrupting and halting a life cycle in the introduction stage.

Yahoo! set to use Tumblr Ads

The most significant events so far during CEO Mayer's tenure has been the 1.1billion USD acquisition of blogging site Tumblr and its change of logo. Yahoo! today commands approximately 10% of the search engine market and is trying to transform itself into a content management and internet advertising company. The company has recently decided to start using the Tumblr Ads on its portal.

This serves two purposes:

1. It ensures that its current portfolio of products always remain in growth phase by consistently acquiring new technology and enhancing user experience.

2. It prevents any other company from reaching the scale Google has reached today. The moment it sees such a threat, it will buy it out. The company being in the nascent stage will see value in the lucrative offer that Google will make and accept it. In case, it doesn't Google will copy the idea and launch it in a scale that cannot be matched by the start-up.

So essentially is Google the creator of this great developer ecosystem or its largest carnivore? Perhaps, it performs both the roles with great perfection.

From the editor's desk

The journey from a business blog, started in Dec. 2010, to launching the inaugural edition of a business magazine, we have come a long way. During the course of this journey, we have achieved several major milestones- from hosting writing competitions, case study challenges to opening the platform for B-school students to work with us as campus ambassadors. We even changed the interface of our portal as many as 11 times during this period!

This journey has only been possible because of the support that you as a reader have shown towards the site. We have recently launched a discussion forum and a video blog to provide a more enriching experience for our readers. Do let us know your feedback and how we can improve these areas in future.

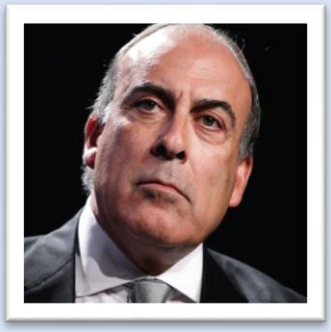
2014 will also mark the launch of several products from our side including sector and equity research reports. We hope to continue to serve you now and always.

-Abhirup Bhattacharya, Founder & Editor in Chief

The Team
Jnika Tuteja
Luna Daniel
Campus Ambassadors
Avinash Pullela
Asit Arunav Mohapatra
Sourav Roy
Rajdeep Chakraborty

Business Quiz #1

Q1. Can you identify this Indian CEO of a leading job portal?



Q2. Name this global CEO of a leading FMCG company

Q3. Identify this billionaire founder of a leading Chinese online company

Q4. This India-born techie was in the race to be Microsoft's CEO. Can you name him?

Q5. Identify this Managing Director of an international financial body

Q6. Identify this historic occasion involving a baltic state

Answers: 1. Sanjeev Bhikchandani 2.Muthar Kent 3.Jack Ma 4. Sundar Pichai 5. Christine Lagarde 6.Latvia joining Eurozone

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